The process of telecommunication liberalisation at half throttle
Susanna Arasa
Expansión

Although three years have gone since the beginning of the telecom liberalization process in Spain, the new players have not succeeded in appropriating substantial market share. Josep Valor, IESE’s professor, and José López-Tafall, Retevisión’s PR director, agree that what lies in the cornerstone of deregulation is local loop unbundling

At the end of the eighties, the European Union decided to start a telecommunications liberalization process in the Old Continent. The objective was to introduce the concept of universal service while competitiveness compared to the USA and Japan was boosted. It has been almost fifteen years since this process began and the progress towards the complete deregulation of this sector, originally in hands of public monopolies, has been and full of obstacles. One of these obstacles was that the new entries lacked their own infrastructures and thus were forced to use the networks of the dominating operators who were reluctant to share them.

Other obstacles were conflicts between the distributors and government due to amortisation tax and established tariffs, and also over licence concessions with a marked political component. The resolution of these difficulties is so complex that many end up in judicial disputes. Next week, the European Commission will reach a verdict about the possible sanctioning of eleven member countries that are not fulfilling the pace agreed for the liberalisation of the subscriber's loop, the part of the network that unites the operator with each user. The announcement of the European Commission coincides with the third anniversary of the liberalization of the sector in Spain (dating back to December 1998), one country that could be amongst the penalised ones. Three years later, the environment of the Spanish telecommunications has radically changed. There has been a shift from a single distributor for all the fixed telecommunications, to several dozens of national and foreign operating companies. Notwithstanding this, last year these operators have managed to acquire a combined share of 8.4% of a market worth 7,813 million Euros (1.3 billion pesetas).

In the field of mobile telecommunications, the law stipulates a small degree of network sharing but the success of these services amongst consumers (26 million consumers in Spain) has led to a more equal division among the three active companies. Telefónica Móviles accounts for 60% of the market share by earnings, Vodafone has 30% and Amena 10%. Moreover, liberalization has fomented the Internet boom. According to the Estudio General de Medios, the number of Internet users in Spain grown from 1,700,000 (5.1% of the population) in the last quarter of 1998, to currently 7.4 million users (some 20% of the population). The use of the Internet has changed the telecommunication habits of the Spanish, and has opened the door to a great number of
companies that manage telecommunication services based on Internet technology.

In the field of data communications, the process of liberalisation has led to the launch of broadband communications. The cable law from 1995 predicted that the cable networks would reach 11.5 million residential users and 2.5 million companies in 2007. This does not seem likely to happen due to the slow process, the exaggerated launch costs and above all, due to the lack of added value in comparison to other technologies such as ADSL. Thus, the construction of the most ambitious project in the history of the Spanish telecommunications has been spoiled. At present the 12 cable platforms operating in Spain hardly reach 400,000 users. In the meantime, the main operators are aiming for ADSL technology due to the smaller investment required in infrastructure. In this process of liberalisation, the controversial awarding of the licences for (the third generation) broadband wireless technologies -UMTS- contributed to foment unrealistic economic expectations in the sector. The delay in the implementation calendar and the financial crisis have forced the title holders of these types of telephy systems to redefine their objectives both in the building and the business models that should help them to recover their investments.

Liberalization has fomented a considerable increase of services offered in Spain and some reduction in tariffs. However, the process has not finished. According to the last European Commission report, the Spanish together with the Portuguese, Greeks and the Italians are the Europeans users who pay the most for their telecommunications. Thus, there is still a long way to go.

**The Question**

"What is the course to be passed in the deregulation in Spain?"

**The opening of the local loop - a big obstacle**

*José Valor, IESE Professor*

It could be that the liberalisation of telecommunications, not yet reached in Spain, will never be reached. Today the regulator has to force the dominant operating company to allow the usage of the last mile of its network in fair conditions. As this part of the network, called the local loop, is an important asset, it is evident that there is no interest for its owner in sharing it.

Furthermore, there is no clear definition about the share of the maintenance costs. If a local transportation company was created whose only mission was to maintain the last mile and sell the transport to any company, the market conditions would be very different. This way, the regulator would have to control only this part of the monopoly of the local network. Having ignored this opportunity, the owner of the last mile of the network has an unbeatable advantage until alternative local loops such as cable or wireless lines become a reality.

**Towards real competition**

*José López-Tafall, Retevisión External Affairs Manager*

The results of telecommunication liberalisation are evident. The telephone traffic has grown some 71% and the average cost per minute has been reduced by 61.6%. However, there are two tasks to fulfil in order to consolidate the competition effectively. The first one is to open the local loop to the user as this delay offers a clear advantage to
Telefónica and threatens the possibility of them creating a new monopoly in broadband services or ADSL. The second one is to make regulation more coherent with the needs of the market. This should be translated into a more prompt performance of the regulator as opposed to the reality that positions new entrants at a disadvantage to the traditional operating companies. One simple rule should be applied: before a traditional company offers a service, the regulatory tool for competition should be available.